

Scarce credit hits units, slows recovery

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A clamp on finance for apartment developments could constrain the expected rebound in housing construction and dampen the speed of the economic recovery.

Tight lending requirements have been blamed for a sharp slowdown in high-rise and medium-density unit developments. This could prolong the drag on growth from residential construction through to early next year, despite the success of measures such as low interest rates, the First Home Owners Boost and stamp duty relief.

According to housing industry analysts, work on new high-rise apartment projects has collapsed since the start of the year as

developers struggle to secure loans from increasingly risk-averse banks and other lenders who are demanding higher pre-commitment sales and changed ownership arrangements in order to provide finance.

Markets expect Australian Bureau of Statistics figures to be released today to show a marginal increase in residential construction in the June quarter as historically low interest rates and incentives for first home buyers lift demand for detached homes.

But the Housing Industry Association expects official data to show housing starts plunged by 17 per cent last financial year, including a 13 per cent drop in work on stand-alone homes and a 26 per cent collapse in high and medium-density projects.

BIS Shrapnel senior economist Jason Anderson said that developers in Sydney and south-east Queensland had been hit particularly hard by tighter financial conditions, with apartment projects in these areas in the first half of the year down by up to 60 per cent compared with the first six months of 2008.

"In Sydney in the first half of the year there were five projects with more than 50 units that got building approval," Mr Anderson said. "That is an extremely low number. In a good year there could be as many as 20 in the same period."

He said that although demand for apartments had held up reasonably well, developers reliant on debt funding were finding it very difficult to get the finance they needed to

proceed, with banks and other lenders requiring pre-commitment sales of to 70 per cent of a project before agreeing to terms.

Mr Anderson said the effects of this would become apparent later this year and in early 2010 as existing projects were completed and not replaced with new works.

"The really big hit will come through in the second half [of 2009]," he said. "Housing will not make a substantial contribution to gross domestic product until the March quarter next year."

Housing Industry Association chief economist Harley Dale said that although work on detached homes was likely to climb by 10 per cent in 2009-10, there was a "big risk" of a contraction in high-density projects.

According to development consultants Davis Langdon, the downturn has pushed construction costs for high-rise residential projects down by 2.3 per cent in the past 12 months.

"Construction prices remain at record lows in all major markets," the firm's national research manager Rachel Kelloway said. "And it is largely the cost and difficulty of obtaining finance that is holding projects back."

Reserve Bank of Australia governor Glenn Stevens earlier this month said there was little that could be done until the credit cycle turned.

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